

**Cash Management Improvement Act Agreement
between
The State of California
and
The Secretary of the Treasury,
United States Department of the Treasury**

The Secretary of the Treasury, United States Department of the Treasury (hereafter 'Secretary'), and the State of California (hereafter 'State'), in order to implement Section 5 of the Cash Management Improvement Act of 1990, as amended (hereafter 'Act'), agree as follows:

1.0 AGENTS OF THE AGREEMENT

1.1 The Authorized Official(s) for the State of California shall be the Chief Deputy Director for the Department of Finance in all matters concerning this Agreement.

1.2 The Assistant Commissioner, Federal Finance, Financial Management Service (FMS), U.S. Department of the Treasury, shall act as the Secretary's representative in all matters concerning this Agreement.

2.0 AUTHORITY

2.1 The authority for this Agreement is the Cash Management Improvement Act of 1990 (Public Law 101-453), as amended by the Cash Management Improvement Act of 1992 (Public Law 102-589), codified at 31 U.S.C. 6501 and 31 U.S.C. 6503.

2.2 The regulations codified at 31 CFR Part 205 shall apply to all matters pertaining to this Agreement, and are incorporated herein by reference herein. In the event of any inconsistency between this Agreement and 31 CFR Part 205, the regulations shall govern.

2.3 This Agreement sets forth the terms and conditions to implement the requirements of the Cash Management Improvement Act of 1990, as amended. The purpose of this Agreement is to establish procedures and requirements for ensuring greater equity, efficiency, and effectiveness in the exchange of funds between the federal government and the State of California (State). Greater equity, efficiency, and effectiveness will be accomplished by improving the movement of funds between the federal agencies and the State, while at the same time ensuring that neither party benefits nor suffers financially due to any transfer of funds.

3.0 DURATION, AMENDING, TERMINATING, AND MISCELLANEOUS PROVISIONS

3.1 This Agreement shall take effect on 7/1/2005 and shall remain in effect until 6/30/2006.

3.2 This Agreement may be amended at any time by written, mutual consent of the State and FMS. This Agreement shall be amended annually to incorporate new programs that qualify as major Federal assistance programs and remove programs that no longer qualify as major Federal assistance programs. A State must notify FMS in writing within 30 days of the time the State becomes aware of a change that involves additions or deletions of programs subject to Subpart A, changes in funding techniques, and/or changes in clearance patterns. The notification must include a proposed amendment for review by FMS.

3.3 Notwithstanding section 3.2, in the event of Federal or State non-compliance with Subpart B of 31 CFR, Part 205, FMS may unilaterally amend this Agreement at any time to incorporate additional programs and the entities that administer those programs.

3.4 This Agreement may be terminated by either party with 30 days' written notice. If this Agreement is terminated, FMS will prescribe the funding techniques, clearance patterns, and methods for calculating interest liabilities to be used by the State.

3.4 DEFINITIONS

In addition to the definitions contained in 31 CFR Section 205.2 which will govern the interpretation of any terms cited in this Agreement, the following definitions will clarify the terms used in this Agreement which are unique to the State:

Claim schedule is an expenditure voucher from a State department requesting payment of a lawful obligation of the State. The claim form is a schedule showing the legal authority under which the claim may be paid and the amounts to be charged.

Check is an instrument for payment on demand for a specific amount from a bank account in the centralized State Treasury System. Note: The FMS uses the term check instead of warrant in this Agreement. Therefore, for the purposes of this Agreement, terms check and warrant will be used synonymously.

Warrant is an order drawn by the State Controller's Office for payment from a fund in the State Treasury and not from a bank account. Note: The FMS uses the term check instead of warrant in this Agreement. Therefore, for the purposes of this Agreement, the terms check and warrant will be used synonymously.

Office Revolving Fund (ORF) is a bank account in the centralized State Treasury System with a sum of money advanced from a State department's appropriation. The State department makes disbursements from the ORF with checks. The ORF is reimbursed later for these disbursements by a warrant drawn against the balance of the State department's appropriation.

Clearance Pattern, as defined in 31 CFR Section 205.2, will be used to schedule the receipt of Federal funds for interest neutral funding techniques. For the purposes of this Agreement, the term Clearance Pattern and Redemption Pattern are used synonymously for those programs utilizing the Pre-Issuance funding technique.

Redemption Patterns are the weighted average days from warrant issuance to clearance/redemption that are used to calculate the interest liabilities for pre-issuance funded payment components. For the purposes of this Agreement, the term Clearance Pattern and Redemption Pattern are used synonymously for those programs utilizing the Pre-Issuance funding technique.

Clearance/redemption is paying out funds for program purposes.

Refund Transaction means an entry to the record of a State bank account representing a single deposit of refunds of \$50,000 or more. A refund transaction may consist of a single check or item, or a bundle of accumulated checks.

State Controller's Office (SCO) is responsible, in part, for fiscal control over the receipt and disbursement of public funds.

State Treasurer's Office (STO) is responsible, in part, for the custody of all money and securities, investment of money, and the redemption and reconciliation of State warrants drawn by the SCO.

State Department of Finance (Finance) is responsible, in part, for maintaining a complete and uniform State accounting system. The Fiscal Systems and Consulting Unit is responsible for administering the Cash Management Improvement Act.

Local agencies are entities that receive assistance payments from the State departments. Depending on the programs, disbursements are made to one or more local agencies. The primary entities include city government, county government, community based organizations, school districts, and various service providers.

Federal interest days are the number of days the State owes interest to the federal government.

State interest days are the number of days the federal government owes interest to the State.

4.0 PROGRAMS COVERED

4.1 The State's threshold and its major Federal assistance programs shall be determined based on the State's 2003-04 Single Audit Report for fiscal year ending 6/30/2004.

All major Federal assistance programs shall be covered by this Agreement, unless otherwise specified in section 4.4 of this Agreement.

4.2 The State's threshold for major Federal assistance programs is \$212,000,000.

The following programs meet or exceed the threshold and are not excluded in Section 4.4:

- 10.551 Food Stamps
- 10.553 School Breakfast Program
- 10.555 National School Lunch Program for Children
- 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
- 10.558 Child and Adult Care Food Program
- 10.561 State Administrative Matching Grants for Food Stamp Program
- 17.225 F Unemployment Insurance -- Federal Benefit Account and Administrative Costs
- 17.225 S Unemployment Insurance -- State Benefit Account
- 20.205 Highway Planning and Construction
- 84.010 Title I Grants to Local Educational Agencies
- 84.027 Special Education -- Grants to States
- 84.126 Rehabilitation Services -- Vocational Rehabilitation Grants to States
- 84.367 Improving Teacher Quality State Grants
- 93.558 Temporary Assistance for Needy Families
- 93.563 Child Support Enforcement
- 93.575 Child Care and Development Block Grant
- 93.596 Child Care Mandatory and Matching Funds for the Child Care and Development Fund
- 93.658 Foster Care -- Title IV-E
- 93.659 Adoption Assistance
- 93.667 Social Services Block Grant
- 93.767 Child Health Insurance Program
- 93.778 Medical Assistance Program
- 93.959 Block Grants for Prevention and Treatment of Substance Abuse
- 96.006 Supplemental Security Income
- 97.036 Public Assistance Grants

4.3 The following programs fall below the State's threshold but have been required to be covered by FMS in accordance with the non-compliance provisions of Subpart B of 31 CFR Part 205:

There are no programs listed for section 4.3

4.4 The following programs exceed the State's threshold but have been excluded from coverage for the reason indicated:

84.032 Federal Family Education Loans --- Exclusion: Non-State

4.5 Above State's Threshold. The State shall notify FMS in writing within 30 days of the time the State becomes aware of a federal assistance program that will exceed the current year threshold. Based on the regulations, the State of California has calculated the threshold to be \$212,000,000 for the period of the Agreement.

4.6 Programs Moved from Subpart B to A. The FMS will explain in writing to Finance whenever the FMS requires a program to be moved from coverage under Subpart B to Subpart A of the 31 CFR Part 205. The FMS will allow the State 60 business days to resolve any problems with Subpart B before requiring the State to cover the program in this Agreement. Only the affected program will be included under Subpart A.

5.0 ENTITIES COVERED

5.1 State agencies and instrumentalities that meet the definition of a State per 31 CFR Part 205, shall be subject to the terms of this Agreement. The following is a list of such entities that administer funds under the programs listed in Section 4.0 of this Agreement:

Department of Alcohol and Drug Programs (4200)
Department of Child Support Services (5175)
Department of Education (6100)
Department of Health Services (4260)
Department of Rehabilitation (5160)
Department of Social Services (5180)
Department of Transportation (2660)
Employment Development Department (7100)
Managed Risk Medical Insurance Board (4280)
Office of Emergency Services (0690)
State Board of Equalization (0860)
Student Aid Commission (7980)

5.2 Entities that meet the definition of a Fiscal Agent per 31 CFR Part 205 shall be subject to the terms of this Agreement. The following is a list of Fiscal Agents that administer funds under the programs listed in Section 4.0 of this Agreement:

JP Morgan 10.551 Food Stamps

6.0 FUNDING TECHNIQUES

6.1 General Terms

6.1.1 The State shall request Federal funds in accordance with the appropriate cut-off times shown in Exhibit I to ensure funds will be received and credited to a State account by the times specified in the funding techniques. Exhibit I is incorporated by reference herein.

6.1.2 The State shall schedule the receipt of Federal funds such that the funds are received and credited to a State account in accordance with the clearance patterns specified in Exhibit II - List of State Clearance Patterns. Exhibit II is incorporated by reference herein.

6.1.3 In instances where the receipt of funds is scheduled for a Saturday, the State shall request funds for deposit on Friday. In instances where the receipt of funds is scheduled for a Sunday, the State shall request funds for deposit on Monday. In instances where the receipt of Federal funds is scheduled for deposit on a day when the State is not open for business, the State shall request funds for deposit the day following the scheduled day; in instances where the receipt of Federal funds is scheduled for deposit on a day when the Federal Government is not open for business, the State shall request funds for deposit the day prior to the scheduled day.

6.1.4 Estimates and Reconciliation of Estimates:

Where estimated expenditures are used to determine the amount of the drawdown, the State will indicate in the terms of the State unique funding technique how the estimated amount is determined and when and how the State will reconcile the difference between the estimate and the State's actual expenditures.

6.1.5 Supplemental Funding:

Unless otherwise defined by program rules, Supplemental Funding is the award of additional funds to provide for an increase in costs due to unforeseen circumstances.

The State will comply with all Federal program agency policies and procedures for requesting supplemental grant funding.

The State will comply with the following guidelines when requesting supplemental funding for the Medical Assistance Program and associated administrative payments (CFDA 93.778):

The State must submit a revised Medicaid Program Budget Report (CMS-37) to request supplemental funding. The CMS guidelines and instructions for completing the CMS-37 are provided in Section 2600F of the State Medicaid Manual (SMM). The CMS/CO must receive the

revised Form CMS-37 through the Medicaid Budget Expenditure System/Children's Budget Expenditure System (MBES/CBES) no later than 10 calendar days before the end of the quarter for which the supplemental grant award is being requested.

Additional guidance on this policy is available from the respective CMS Regional Office, U.S. Department of Health & Human Services.

The State will comply with the following guidelines when requesting supplemental funding for TANF (CFDA 93.558), CCDF (CFDA 93.575), CSE (93.563), and the FC/AA (CFDA 93.658 and CFDA 93.659) programs administered by the U.S. Department of Human Services, Administration for Children and Families (HHS/ACF):

a. Timing of the Request

A State should initiate its request for supplemental funding during a quarter as soon as it becomes aware of the fact that a shortfall does/will exist. For the TANF and CCDF grants, supplemental funding requests (estimates) may be submitted by a State, for consideration by ACF, up through and including the 15th day of the third month of the first, second or third quarter of any fiscal year. Since TANF and CCDF are block grant programs, all unawarded portions of the annual allotment will automatically be issued at the beginning of the fourth quarter. Therefore, supplemental funding requests will not be available during the fourth quarter for these programs. For the CSE and FC/AA programs, supplemental funding requests may be submitted by a state, for consideration by ACF, up through and including the 15th day of the third month of any quarter of a fiscal year.

b. Justification for the Request

The request for a supplemental funding for any of the above mentioned programs should contain a justification clearly documenting the need for the additional funding authority during the current quarter. This documentation should be in the form of State accounting records or similar documents that will show the actual expenditures through the most recent month for which such data are available, as well as the State's most accurate projection of its anticipated expenditures during the remaining month(s) of the quarter. For either the TANF or the CCDF program, the State's justification should also include an explanation of the activities requiring the obligation

and/or expenditure of amounts that exceed the normal quarterly grant award restrictions and why these activities could not have been delayed until the next quarter.

c. Form Submittal

Supplemental funding requests should be made by completing the appropriate ACF quarterly report of expenditures and estimates applicable to the particular program for which the grant award request is being made.

d. Approval Process

Upon receipt of the state's request for additional funding authority for a quarter, the ACF Regional Office will promptly review the supporting documentation. If the request is properly justified, so long as ACF has adequate funding availability, the State's request will be expedited and supplemental funding will be issued within 5 days of ACF receiving the request. The State will be notified by the Regional Office when the supplemental award has been transmitted to the Payment Management System (PMS) and when it may initiate drawdowns against the supplemental funding.

Additional guidance on this policy is provided in the U.S. Department of Health & Human Services, Administration for Children and Families, letter (May 19, 2004) to State Administrators from the Deputy Assistant Secretary for Administration.

6.1.6 Unless otherwise specified, the State uses the pre-issuance funding technique for the major Federal assistance programs. Interest liabilities are incurred by the State under the provisions of CMIA because the State Constitution requires cash on hand before warrants are issued. Therefore, Federal funds will be requested before warrants are issued--and will not be based on the clearance/redemption patterns specified in Section 6.1.2. The State's interest liabilities will be based on the number of days from the time Federal funds are deposited in the State account until the funds are paid out for program purposes.

6.2 Description of Funding Techniques

6.2.1 The following are terms under which standard funding techniques shall be implemented for all transfers of funds to which the funding technique is applied in section 6.3 of this Agreement.

Pre-Issuance

The State shall request funds such that they are deposited in a State account not more than three days prior to the day the State makes a disbursement. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be the amount the State expects to disburse. This funding technique is not interest neutral.

6.2.2 The following are terms under which funding techniques for administrative costs shall be implemented for all transfers of funds to which the funding technique is applied in section 6.3 of this Agreement.

There are no funding techniques listed in Section 6.2.2

6.2.3 The following are terms under which miscellaneous funding techniques shall be implemented for all transfers of funds to which the funding technique is applied in section 6.3 of this Agreement.

Reverse Flow Program - SSI (CFDA 96.006)

In accordance with the terms in Section 9.0 of this Agreement, the Federal Government makes payments on behalf of the State for the Supplemental Security Income (SSI) program, CFDA No. 96.006. This funding technique is not interest neutral.

6.2.4 The following are terms under which State unique funding techniques shall be implemented for all transfers of funds to which the funding technique is applied in section 6.3 of this Agreement.

Monthly Estimate/Monthly Draw--Administrative Costs

Monthly operating and equipment expenditures shall be estimated monthly and recorded on the median day of the month. The State shall request payroll funds such that they are deposited to coincide with the State's monthly payroll cycle. The amount of the requests shall be an estimate of expenditures based on historical data. The estimate will be reconciled to actual costs within 45 days after the end of the month, and future draws will be adjusted accordingly. This funding technique is interest neutral.

Modified Zero Balance Accounting

The State departments will request an estimated amount of Federal funds each day for food voucher redemption. The estimated amount is calculated based on the average daily requested amount over a one year period. The Federal funds will be transferred to the State on the following business day to redeem the vouchers submitted for payment that day. Adjustments to the daily amounts requested for the difference between the estimated and actual redeemed voucher amounts will be made two days in arrears. The State and Federal government will not incur any interest liability for the minor adjustment amounts. This funding technique is interest neutral.

Monthly Draws

This category consists primarily of payroll and related benefits paid by the Department of Transportation. Labor is paid by the State monthly, and the State department will request funds on a monthly basis, after it has paid out State funds and allocated the costs to the appropriate projects. The State and Federal government will not incur any interest liability as specified in Section 8.7.3. This funding technique is interest neutral.

Monthly Report

The Student Aid Commission's auxiliary organization will purchase defaulted student loans from financial institutions using Federal funds held in a revolving fund. Each month a report of actual program expenditures will be submitted by the auxiliary organization to the U.S. Department of Education. The Federal agency will generally transfer funds to the State department within 60 days of receiving the expenditure report. This program is subject to an interest exemption as specified in Section 8.7.8. This funding technique is interest neutral.

Reimbursement

The State departments will request Federal funds after it has made payments for program purposes with State funds. This funding technique is interest neutral.

Monthly Estimate/Monthly Draw

The State departments will estimate the monthly expenditures during the first week of each month. This amount will be requested within the first ten working days of each month. The State will reconcile the actual expenditures to the estimate for each month and adjust the subsequent request for funds. This funding technique is interest neutral.

Modified Average Clearance

The State departments will request federal funds from the Federal Highway Administration for payments processed through the department's Transportation Accounting and Management System. Funds will be transferred to the department the same day in order to coincide with the historical average clearance patterns as calculated in Section 7. The historical average clearance pattern of 18 days will be used for consultant contract payments; 25 days will be used for right-of-way payments, and 16 days for subvention payments. This funding technique is interest neutral.

Modified Post-Issuance

The State departments will request Federal funds between the dates on which checks for benefit payments are issued and the estimated date of redemption of the checks. The amount requested each day from the Unemployment Trust Fund (UTF) will be the total amount of unemployment benefit checks estimated to be redeemed one day from the request date. The State department may request an amount less than the amount to be redeemed to offset any accumulated residual balances.

The funds are requested and received on the same day and generally are deposited in a State account one day prior to the estimated date of redemption. The State Treasurer will earn interest credits on the funds during this period. The State department will monitor the interest credits earned and, if necessary, readjust the request date to keep the residual interest credits at or near zero. However, the State departments will not adjust the request date back greater than four days prior to the estimated date of redemption without seeking an amendment to this Agreement. The State departments will report interest credits earned and related banking costs in the Annual Report to the FMS. Residual interest credits are not available to return annually to the State's account in the UTF.

The State departments receive on a daily basis from the STO the number of checks paid and the amount paid for each centralized State Treasury System account. The estimate of the check redemption amount is based on prior history of what normally is redeemed for the day that the Federal funds are requested for (usually an average of the last four weeks). This funding technique is interest neutral.

Zero Balance Accounting

The State departments will request Federal funds one day before the funds are transferred to the service delivery area agencies. The funds will

be transferred to the State on the following business day. On the same day that the Federal funds are deposited into the State account, the funds will be wire transferred or interbranch deposited into the service delivery area department bank accounts. No State and Federal interest liability will be incurred if funds are deposited in a State account on the next business day and the funds are paid out for program purposes on the same day. This funding technique is interest neutral.

After Cost Allocation

The State departments will make payments for program purposes with State funds. Federal funds will be requested after actual costs are allocated to programs and funding sources, or based on estimated allocations. This funding technique is not interest neutral.

Reimbursement--Department of Transportation

The Department of Transportation will request federal funds once the expenditures have been incurred, recorded, and identified as billable. In most instances, the request of funds will occur after the State has paid out its funds. The State and federal government will not incur any interest liability as specified in Section 8.7.3. This funding technique is interest neutral.

6.3 Application of Funding Techniques to Programs

6.3.1 The State shall apply the following funding techniques when requesting Federal funds for the component cash flows of the programs listed in sections 4.2 and 4.3 of this Agreement.

6.3.2 Programs

Below are programs listed in Section 4.2 and Section 4.3.

10.551 Food Stamps

Recipient: Department of Social Services (5180)

% of Funds Agency Receives:

Component: Benefit Payments

Technique: Zero Balance Accounting

Clearance Pattern: 0 Days

10.553 School Breakfast Program

Recipient: Department of Education (6100)

% of Funds Agency Receives:

Component: Payments to local agencies

Technique: Pre-Issuance

Clearance Pattern: 11 Days

10.555 National School Lunch Program for Children

Recipient: Department of Education (6100)

% of Funds Agency Receives:

Component: Payments to local agencies

Technique: Pre-Issuance

Clearance Pattern: 12 Days

10.557 Special Supplemental Nutrition Program for Women, Infants, and Children

Recipient: Department of Health Services (4260)

% of Funds Agency Receives:

Component: Payroll/Operating expenses

Technique: Monthly Estimate/Monthly Draw--Administrative Costs

Clearance Pattern: N/A

Recipient: Department of Health Services (4260)

% of Funds Agency Receives:

Component: Payments to local contractors

Technique: Pre-Issuance

Clearance Pattern: 8 Days

Recipient: Department of Health Services (4260)

% of Funds Agency Receives:

Component: Food voucher redemption

Technique: Modified Zero Balance Accounting

Clearance Pattern: 0 Days

10.558 Child and Adult Care Food Program
Recipient: Department of Education (6100)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Education (6100)
% of Funds Agency Receives:
Component: Payments to local agencies
Technique: Pre-Issuance
Clearance Pattern: 8 Days

10.561 State Administrative Matching Grants for Food Stamp Program
Recipient: Department of Social Services (5180)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Social Services (5180)
% of Funds Agency Receives:
Component: Payments to local agencies
Technique: Pre-Issuance
Clearance Pattern: 5 Days

17.225F Unemployment Insurance -- Federal Benefit Account and Administrative Costs
Recipient: Employment Development Department (7100)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Employment Development Department (7100)
% of Funds Agency Receives:
Component: Benefit Payments
Technique: Modified Post-Issuance
Clearance Pattern: N/A

17.225S Unemployment Insurance -- State Benefit Account
Recipient: Employment Development Department (7100)
% of Funds Agency Receives:
Component: Benefit Payments
Technique: Modified Post-Issuance
Clearance Pattern: N/A

20.205 Highway Planning and Construction
Recipient: Department of Transportation (2660)
% of Funds Agency Receives:
Component: Payments for revolving fund, miscellaneous direct payments, utilities, service center charges, accounts receivable/reimbursement adjustments, and other miscellaneous adjustments.
Technique: Reimbursement--Department of Transportation
Clearance Pattern: N/A

Recipient: Department of Transportation (2660)
% of Funds Agency Receives:
Component: Payments for construction contracts (includes subvention reimbursements)
Technique: Pre-Issuance
Clearance Pattern: N/A

Recipient: Department of Transportation (2660)
% of Funds Agency Receives:
Component: Payments for right-of-way
Technique: Modified Average Clearance
Clearance Pattern: 25 Days

Recipient: Department of Transportation (2660)
% of Funds Agency Receives:
Component: Payments for consultant contracts
Technique: Modified Average Clearance
Clearance Pattern: 18 Days

Recipient: Department of Transportation (2660)
% of Funds Agency Receives:
Component: Payments for subventions
Technique: Modified Average Clearance
Clearance Pattern: 16 Days

Recipient: Department of Transportation (2660)
% of Funds Agency Receives:
Component: Payments for labor
Technique: Monthly Draws
Clearance Pattern: N/A

84.010 Title I Grants to Local Educational Agencies

Recipient: Department of Education (6100)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Education (6100)
% of Funds Agency Receives:
Component: Payments to local agencies
Technique: Pre-Issuance
Clearance Pattern: 7 Days

84.027 Special Education -- Grants to States

Recipient: Department of Education (6100)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Education (6100)
% of Funds Agency Receives:
Component: Payments to local agencies
Technique: Pre-Issuance
Clearance Pattern: 6 Days

84.126 Rehabilitation Services -- Vocational Rehabilitation Grants to States

Recipient: Department of Rehabilitation (5160)
% of Funds Agency Receives:
Component: Payments to clients
Technique: Reimbursement
Clearance Pattern: N/A

Recipient: Department of Rehabilitation (5160)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Rehabilitation (5160)
% of Funds Agency Receives:
Component: Payments to vendors
Technique: Pre-Issuance
Clearance Pattern: 12 Days

84.367 Improving Teacher Quality State Grants

Recipient: Department of Education (6100)

% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Education (6100)
% of Funds Agency Receives:
Component: Payments to local educational agencies and various State departments
Technique: Pre-Issuance
Clearance Pattern: 7 Days

93.558 Temporary Assistance for Needy Families
Recipient: Department of Social Services (5180)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Social Services (5180)
% of Funds Agency Receives:
Component: Payments to local agencies
Technique: Pre-Issuance
Clearance Pattern: 0 Days

93.563 Child Support Enforcement
Recipient: Department of Child Support Services (5175)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Child Support Services (5175)
% of Funds Agency Receives:
Component: Payments to local agencies
Technique: Pre-Issuance
Clearance Pattern: 6 Days

93.575 Child Care and Development Block Grant
Recipient: Department of Education (6100)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Education (6100)
% of Funds Agency Receives:
Component: Payments to child care providers
Technique: Monthly Estimate/Monthly Draw
Clearance Pattern: N/A

Recipient: Department of Education (6100)
% of Funds Agency Receives:
Component: Payments to local education agencies and various State departments
Technique: Pre-Issuance
Clearance Pattern: 10 Days

93.596 Child Care Mandatory and Matching Funds for the Child Care and Development Fund
Recipient: Department of Education (6100)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Education (6100)
% of Funds Agency Receives:

Component: Payments to local education agencies and various State departments
Technique: Pre-Issuance
Clearance Pattern: 9 Days

Recipient: Department of Education (6100)
% of Funds Agency Receives:
Component: Payments to child care providers
Technique: Monthly Estimate/Monthly Draw
Clearance Pattern: N/A

93.658 Foster Care -- Title IV-E
Recipient: Department of Social Services (5180)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Social Services (5180)
% of Funds Agency Receives:
Component: Payments to local agencies
Technique: Pre-Issuance
Clearance Pattern: 4 Days

93.659 Adoption Assistance
Recipient: Department of Social Services (5180)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Social Services (5180)
% of Funds Agency Receives:
Component: Payments to local agencies
Technique: Pre-Issuance
Clearance Pattern: 5 Days

93.667 Social Services Block Grant
Recipient: Department of Social Services (5180)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Social Services (5180)
% of Funds Agency Receives:
Component: Payments to service providers and to State and local agencies
Technique: Pre-Issuance
Clearance Pattern: 1 Day

93.767 State Children's Insurance Program
Recipient: Managed Risk Medical Insurance Board (4280)
% of Funds Agency Receives: 75
Component: Payments to health insurance providers, enrollment contractor, and local agencies
Technique: Pre-Issuance
Clearance Pattern: 9 Days

Recipient: Department of Health Services (4260)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Health Services (4260)
% of Funds Agency Receives: 25
Component: Payments to health care providers and to State and local agencies

Technique: Pre-Issuance
Clearance Pattern: 9 Days

Recipient: Managed Risk Medical Insurance Board (4280)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

93.778 Medical Assistance Program
Recipient: Department of Health Services (4260)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Health Services (4260)
% of Funds Agency Receives:
Component: Payments to health care providers and local agencies
Technique: Pre-Issuance
Clearance Pattern: 5 Days

93.959 Block Grants for Prevention and Treatment of Substance Abuse
Recipient: Department of Alcohol and Drug Programs (4200)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Department of Alcohol and Drug Programs (4200)
% of Funds Agency Receives:
Component: Payments to local agencies
Technique: Pre-Issuance
Clearance Pattern: 7 Days

Recipient: Department of Alcohol and Drug Programs (4200)
% of Funds Agency Receives:
Component: Funding to the Department of Health Services (DHS) for Chapter 1009, Statutes of 1994 (Stop Tobacco Access to Kids Enforcement Act), as amended by Chapter 648, Statutes of 1998. (See Section 8.7.10)
Technique: Pre-Issuance
Clearance Pattern: 0 Days

96.006 Supplemental Security Income
There are no Techniques that have been applied to this program.

97.036 Public Assistance Grants
Recipient: Office of Emergency Services (0690)
% of Funds Agency Receives:
Component: Payroll/Operating expenses
Technique: Monthly Estimate/Monthly Draw--Administrative Costs
Clearance Pattern: N/A

Recipient: Office of Emergency Services (0690)
% of Funds Agency Receives:
Component: Payments to State and local agencies
Technique: Pre-Issuance
Clearance Pattern: 14 Days

6.3.3 Materiality Exemptions

Agencies exempt from coverage on the basis of materiality:

Where more than one State department is a recipient of Federal funds for a program, a particular State department's funding may be excluded from interest calculation procedures if the State department receives less than 5% (\$10.6 million) of the State's \$212 million threshold for major federal assistance programs. Notwithstanding this potential exemption, however, in no case will less than 90% of a program's total funding be subject to interest calculation procedures.

If less than total program funding is subject to interest calculation procedures, the resulting interest liability calculations will be prorated to 100% of the pre-issuance funded program funds. (See Section 8.7.9)

6.4 State funds may be insufficient during some months of a fiscal year for any of the above programs that usually request Federal funds for expenses after cost allocation. Under these circumstances, the State department will request the Federal funds for expenses in advance of warrant issuance and the State will be liable for interest on these funds.

6.5 For the major Federal assistance programs in which more than one State department requests funds, the percentage of funds received by each State department is based on information from the SCO Federal Trust Fund report for State fiscal year 2003-04.

7.0 CLEARANCE PATTERNS

7.1 The State shall develop separate clearance patterns for each of the following:

CFDA Program Name

10.553 School Breakfast Program

10.555 National School Lunch

10.557 Special Supplemental Nutrition Program for Women, Infants, and Children

10.558 Child and Adult Care Food Program

10.561 State Administrative Matching Grants for Food Stamp Program

84.010 Title I Grants to Local Educational Agencies

84.027 Special Education—Grants to States

84.126 Rehabilitation Services; Vocational Rehabilitation Grants to States

84.367 Improving Teacher Quality State Grants

93.558 Temporary Assistance for Needy Families

93.563 Child Support Enforcement

93.575 Child Care and Development Block Grant

93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund

93.658 Foster Care—Title IV-E

93.659 Adoption Assistance

93.667 Social Services Block Grant

93.767 State Children's Insurance Program

93.778 Medical Assistance Program

93.959 Block Grants for Prevention and Treatment of Substance Abuse

97.036 Public Assistance Grants

The redemption patterns for the above programs were developed from warrants redeemed from January through December 2004. The redemption patterns were calculated based on at least three months of information.

An average clearance pattern from CFDA 93.596--Child Care Mandatory and Matching Funds of the Child Care and Development Fund had insufficient data to calculate a clearance pattern for this program. Therefore, the program's average clearance pattern from the 2004-05 TSA will be used.

CFDA 93.667--Social Services Block Grant: The average clearance pattern from the 2002-03 TSA, when CFDA 93.667 was last covered in the TSA, will be used for this new program.

The State will use the following methodology to develop redemption patterns (to be used for interest liability calculations) for the pre-issuance funded payment components.

7.2 The following shall develop the State's clearance patterns:

The SCO will develop the clearance patterns for specified programs and funds.

7.3 The sources of data the State shall use when developing its clearance patterns are as follows:

The source of data the State will use when developing its clearance patterns are the SCO's paid warrants files.

7.4 The State shall use the following methodology when developing its clearance patterns:

When developing each clearance pattern, the State shall track at least 99% of the funds disbursed, from issuance to clearance, for a period of at least three months.

7.5 The State shall identify for each check or warrant (hereafter, check) in the population: (1) the date the check was released for payment; (2) the date the check was debited from the State's account, and, (3) the amount of the check.

7.6 The State shall use the following method to calculate the dollar-weighted average day of clearance:

To determine the number of days each check was outstanding (clearance time), the issue date shall be subtracted from the date the check

cleared the State's account.

To determine the percentage of the disbursement paid out each day following issuance, the amount of the checks that clear the State's account each day shall be summed and then divided by the amount of the total disbursement.

For each day following issuance, the clearance time of the checks paid out that day shall be multiplied by the percentage of the total disbursement those checks represent. This product is the clearance factor.

The dollar-weighted average day of clearance for the disbursement shall be determined by summing the clearance factor of each day following the disbursement.

7.6.1 The dollar-weighted average days of redemption for each month shall be weighted against the total amount of dollars redeemed each month. The sum of the dollar-weighted average days of redemption will be used in the calculation of the interest liability.

7.7 The State shall adjust each clearance pattern to reflect the dollar-weighted proportion of funds paid out by EFT/Direct payroll, with the following exceptions:

NONE

The State shall also adjust each clearance pattern to reflect:

For the clearance patterns that are more than one day, the State will adjust by one day each redemption pattern applied to the pre-issuance funded payment components for the programs listed in Section 7.1. Funds are paid out for program purposes by the bank one day earlier than the date stamped on the warrants by the STO. The number of redemption days calculated by the SCO is based on the issuance date of the warrant and the date stamped by the STO after the bank redeems the warrant. (The issuance date is the date the warrants are mailed, released or otherwise made available to the recipients.) This adjustment will reflect accurately when funds are paid out for program purposes.

7.8 Each of the State's clearance patterns is calculated in calendar days.

7.9 An authorized State official shall certify that each clearance pattern developed by the State accurately corresponds to the clearance activity of the programs to which it is applied. This certification shall be provided to FMS prior to the effective date of the Agreement. The State shall recertify its clearance patterns at least every five years.

7.10 The State shall follow the procedures of 31 CFR 205 if it has actual or constructive knowledge, at any time, that a clearance pattern does not correspond to a program's clearance activity.

7.11 The State Department of Transportation (DOT) will use the following methodology to develop separate clearance patterns (to be used for scheduling fund requests) for payments for consultant contracts, right-of-ways, subventions, and construction contracts (including subvention reimbursements) for the Highway Planning and Construction program (CFDA 20.205).

7.11.1 The State DOT will develop the clearance patterns for the Highway Planning and Construction Program.

7.11.2 The sources of data used for developing the clearance patterns are from the DOT's accounts system and information recorded at the SCO.

7.11.3 The State DOT will use the statistical sampling method to develop the average clearance patterns for this program. Separate clearance patterns will be established for applicable disbursement categories based on the accounting code unique to the disbursement category. All transactions for the disbursement category that were reimbursed by the Federal government during a period not less than 3 months will be identified. From this group of transactions, a pilot sample of at least 30 items will be selected to determine the sample size required to achieve a 95 percent confidence interval accurate to within +/- 0.3 dollar-weighted days. Based on the pilot sample, the sample will be expanded to include the required number of sample items and a 95 percent confidence interval accurate to within +/- 0.3 dollar-weighted days will be achieved.

7.11.4 The State DOT will use the following method to calculate the dollar-weighted average day of clearance:

(a) The clearance pattern will be calculated by identifying when the transaction was batched in the department's accounting system and when the warrant related to the transaction was redeemed. Based on this calculation, an average clearance pattern will be developed on a dollar-weighted basis by multiplying the number of days between the accounting batch date and the warrant redemption date.

(b) Each clearance pattern may be reviewed quarterly and, if reviewed, adjusted to increase or decrease the clearance pattern based on the historical trend including the most recent quarter.

7.11.5 The clearance patterns for the Highway Planning and Construction program will be calculated in calendar days.

7.11.6 An official from the State DOT will certify that the clearance patterns developed for the Highway Planning and Construction program (CFDA 20.205) accurately corresponds to the clearance activity of the program to which it is applied. The State DOT will recertify the clearance patterns at least every five years.

7.11.7 The State DOT will follow the procedures of 31 CFR Section 205.22 if it has actual or constructive knowledge, at any time, that a clearance pattern for the Highway Planning and Construction program does not correspond to the program's clearance activity.

8.0 INTEREST CALCULATION METHODOLOGY

8.1.1 The State and the Secretary agree that no interest liabilities will be incurred for transfers of funds made in accordance with the procedures specified in section 6 of this Agreement where the following funding techniques are applied:

Monthly Estimate/Monthly Draw--Administrative Costs
Modified Zero Balance Accounting
Monthly Draws
Monthly Report
Reimbursement
Monthly Estimate/Monthly Draw
Modified Average Clearance
Modified Post-Issuance
Zero Balance Accounting
Reimbursement--Department of Transportation

8.1.2 The State shall maintain information on disbursements and receipts of funds to verify the implementation of any funding technique and document interest liabilities.

For each disbursement, the State shall be able to identify:

- (1) amount of the issuance
- (2) date of issuance
- (3) date Federal funds are received and credited to a State account
- (4) amount of Federal funds received
- (5) date funds were requested

8.2 Federal Interest Liabilities

8.2.1 A Federal interest liability shall accrue from the day the State pays out its own funds for program purposes to the day Federal funds are credited to a State account. With regard to funds transferred out of the Federal Highway Trust Fund, if a State does not bill at least weekly for current project costs, the Federal interest liability shall not accrue prior to the day the State submits a request for funds.

8.2.2 The State shall use the following method to calculate Federal interest liabilities:

For all transactions where the State pays out its own funds for program purposes prior to receiving Federal funds, the State shall track each payment from the date it is paid out of a State account to the date Federal funds are subsequently credited to a State account to cover that outlay. The Federal interest liability on each payment shall be based on the difference in whole days between the two events. With Federal-State matching programs, interest shall be calculated on the Federal percentage of the disbursement.

8.3 The Unemployment Trust Fund

8.3.1 The State shall use the following method to calculate State interest liabilities on funds withdrawn from the several accounts in the Unemployment Trust Fund:

The State shall use the following methodology to calculate State interest liabilities on funds withdrawn from the several accounts in the UTF under the Unemployment Insurance program.

Based on statements provided by its financial institution, or other appropriate source, the State shall determine the actual interest earnings and the related banking costs attributable to funds withdrawn from its account in the UTF.

At the end of the State's fiscal year, the State shall calculate the percentage of its total unemployment compensation expenditures for (1) funds withdrawn from the State account in the UTF, or the State %, and (2) funds withdrawn from the Federal Employees Compensation Account (FECA) and the Extended Unemployment Compensation Account (EUCA) and any other accounts of Federal funds in the UTF, or the Federal %.

The State shall calculate the actual interest earnings and the related banking costs attributable to funds withdrawn from the State account in the UTF by multiplying the State % by the amount of the actual interest earnings and the related banking costs of the account as a whole. The State's liability for interest on funds withdrawn from its account in the UTF shall consist of the actual interest earnings attributable to such funds less the related banking costs attributed to such funds.

The State shall determine the average daily cash balance of its unemployment compensation benefit payment account for its fiscal year. The State shall calculate the average daily cash balance of Federal funds by multiplying the Federal % by the average daily cash balance of the benefit payment account on the whole. The State's liability for interest on funds withdrawn from the FECA and EUCA (and any other benefit accounts of Federal funds in the UTF from which the State draws funds) shall be the average daily cash balance of Federal funds multiplied by the annualized rate equal to the average equivalent yields of 13-week Treasury bills auctioned during the State's fiscal year.

8.4 Refund Liabilities

8.4.1 The State shall be liable for interest on refunds from the date the refund is credited to a State account until the date the refund is debited from the State account for program purposes. The State shall apply a \$50,000 refund transaction threshold below which the State shall not incur or calculate interest liabilities on refunds. A transaction is defined as a single deposit.

8.4.2 For each refund, the State shall maintain information identifying:

- (1) date a refund is credited to a State account
- (2) date of the subsequent deposit of Federal funds against which the refund is offset

(3) amount of the refund

8.4.3 The State shall use the following methodology to calculate interest liabilities on refunds:

Refunds deposited to Non-Interest Neutral Programs - Liability Calculated from when the refund is deposited in a State account until refunds are paid out for program purposes, except for the Medical Assistance Program (CFDA 93.778):

The State will measure this period by dividing it into two periods: the pre-disbursement period and the redemption period. The pre-disbursement period is from the deposit of refunds to issuance of warrants. The redemption period is from the issuance to redemption of warrants.

8.4.4 In addition to Section 8.4.2, the State shall also identify the warrant issue date for the disbursement related to the subsequent deposit of federal funds.

8.4.5 For purposes of this Agreement, Section 8.4.1 - 8.4.3 does not apply to the Medical Assistance Program.

8.4.6 The State Department of Health Services (DHS) will document the following information on separate worksheets for the refunds received by the Medical Assistance Program:

- (1) Mid-point date refunds are deposited in a State account.
- (2) Warrant issue date for the disbursement related to the subsequent deposit of Federal funds.
- (3) Amount of the refunds.

8.4.7 The State will use the following methodology to calculate interest liabilities on refunds for the Medical Assistance Program:

(a) The State will incur and calculate interest liabilities on all refunds for the Medical Assistance Program. The \$50,000 refund transaction threshold will not be applied.

(b) Interest will be calculated based on the difference in whole days between the mid-point the refunds are deposited in a State account and when refunds are paid out for program purposes. The State will measure this period by dividing it into two periods: the pre-disbursement period and the redemption period. The pre-disbursement period is from mid-point date for deposit of refunds to issuance of warrants. The redemption period is from the issuance to redemption of warrants.

8.4.8 For the pre-disbursement period, the individual refund amounts and corresponding number of pre-disbursement days will be used to calculate the total weighted average days for each program. For the redemption period, the period will be determined by the appropriate program redemption pattern specified in Exhibit II.

The total weighted average days for the two periods will be applied to the total refunds to calculate the State interest liabilities. The calculations will use a formula similar to Section 8.6.

8.4.9 A State department will have the option of returning the refunds to the Federal government and/or offsetting the refunds against subsequent fund requests. If a refund is returned, the State interest liability to the Federal government will be calculated from the refund deposit date in the State account to the deposit date in the Federal government's bank account.

8.5 Exemptions

8.5.1 Where more than one State agency is a recipient of Federal funds under a program, a particular State agency's funding may be excluded from interest calculation procedures if the State agency receives an amount of funds less than 5 % of the State's threshold for major Federal assistance programs. Notwithstanding this potential exemption, however, in no case shall less than 90% of a program's total funding be subject to interest calculation procedures.

Proration of calculations: If less than total program funding is subject to interest calculation procedures, the resulting interest liability calculations shall be prorated to 100% of program funding.

8.6 State Interest Liabilities

8.6.1 The State shall be liable for interest on Federal funds from the date Federal funds are credited to a State account until the date those funds are paid out for program purposes.

8.6.2 The State shall use the following method to calculate State interest liabilities on Federal funds:

8.6.3 Measuring Time Funds Are Held

Deposit to Issuance; Issuance to Clearance:

To determine the total time Federal funds are held, the State shall separately measure two time periods: (1) the date Federal funds are deposited to the date checks are issued; and (2) the date checks are issued to the date funds are debited from the State's account.

8.6.4 Source of Data

The period from when Federal funds are deposited and warrants are issued will be determined from information documented by the State departments that administer the programs. The time period from warrant issuance to redemption will be determined by the appropriate

program or fund redemption pattern specified in Exhibit II.

8.6.5 Standards Applied

The State will use the following method to calculate State interest liabilities on Federal funds:

(a) The State will use the actual activity method to calculate State interest liabilities. With Federal-State matching programs, interest will be calculated on the Federal share of the disbursement.

(b) To determine the total time Federal funds are held, the State will separately measure two time periods: (1) Federal funds deposit in State account to warrants issuance, and (2) warrants issuance to redemption.

8.6.6 Calculation Procedure

Pre-Issuance Time + Clearance Time:

$I = P \times r \times \{PI + CT\}$, where

I = State's total interest liability

P = Total annual expenditures of Federal funds for program or component cash flow of program

r = Annualized rate equal to the average equivalent yields of 13-week Treasury bills auctioned during a State's fiscal year divided by 365 days

PI = Dollar-weighted average number of days Federal funds are held by State prior to issuance

CT = Dollar-weighted average number of days Federal funds are held by State between issuance and clearance of checks, as determined by the appropriate clearance pattern in Exhibit II

8.6.7 The State DOT will use the following method to calculate and document the interest liability for payments for construction contracts for the Highway Planning and Construction program (CFDA 20.205).

(a) To determine the total time Federal funds are held for construction contract payments, the State DOT will measure the time from when Federal funds are deposited in a State account and the funds are paid out for program purposes.

(b) This period will be determined from information captured by the State DOT's accounting system and information recorded at the State Controller's Office.

(c) To measure the time Federal funds are held in a State account, from deposit to pay out, the State DOT will use statistical sampling. The sample will be randomly selected and will be of sufficient size to ensure, at a minimum, a 95% confidence level no wider than + or - 0.3 dollar-weighted days about the estimated mean.

For each warrant in the sample population, the State DOT will:

(1) Subtract the deposit date from the redemption date.

(2) Multiply the difference of step 1 by the warrant amount.

(3) Divide the product of step 2 by the total amount of funds drawn in the sample to determine the dollar-weighted number of days Federal funds were held in a State account.

(4) Sum the result of step 3 for each warrant to arrive at the total dollar-weighted average number of days Federal funds were held in a State account.

8.6.8 The State's interest liability for the Highway Planning and Construction program's construction contract payments will be calculated by applying the following formula:

$I = P \times R \times T$ where

I = State's interest liability

P = Amount of Federal funds drawn for construction contract payments

R = Annualized interest rate equal to the average equivalent yields of 13-week Treasury Bills auctioned during the State's fiscal year divided by 365 days.

T = Dollar-weighted average number of days Federal funds are held in a State account, as calculated above.

8.7 Supplemental Provisions

8.7.1 Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA 10.557)--Rebates. Rebates will be offset against subsequent food voucher redemption. The State will not incur an interest liability if any interest earned on rebates is used for program purposes

8.7.2 State Administrative Matching Grants for Food Stamps (CFDA 10.561)—Reimbursements. After the Food Nutrition Service's close-out of a Letter of Credit, any additional Federal funds for a given fiscal year will be requested through the submission of a Request for Advance

or Reimbursement. The reimbursement process may require from 6 months to several years before Federal fund payments are made.

During this waiting period, the State department will maintain an "accounts receivable" until the reimbursement payments are received. If State funds are paid out to reimburse local agencies, the Federal government will incur an interest liability to the State from when State funds are paid out for program purposes and Federal funds are deposited in a State account (subject to the limitations stated in 31 CFR 205.14).

8.7.3 Highway Planning and Construction (CFDA 20.205)—Other Payments. The State and Federal government will not incur any interest liability for the State DOT's labor charges, which are made with State funds and subsequently reimbursed with Federal funds. In addition, the State and Federal government will not incur any interest liability for the categories of reimbursements which are not material to the program and the tracking of and accounting for the related interest liability would constitute an undue administrative burden. These categories are specified as follows: revolving fund payments, miscellaneous payments made directly to vendors by the SCO, utility payments, service center charges, accounts receivable/reimbursement adjustments, and other miscellaneous adjustments.

8.7.4 Due Date for Interest Rate. The Secretary will provide in writing on or before October 1 of each year the annualized 13-week Treasury Bill rate for the prior fiscal year. The rate information will be sent to Finance, Fiscal Systems and Consulting Unit.

8.7.5 Funds Drawn Down, Paid Out, But Never Redeemed. The State will not incur an interest liability on federal funds drawn down according to the appropriate funding technique/clearance pattern, paid out by the State but are never redeemed. These funds will be used to either reduce a subsequent federal drawdown or will be returned to the Federal government.

8.7.6 Interest Liability Adjustments. The calculation of interest liabilities covered by this Agreement will be based upon simple interest. Interest will not be calculated on interest, including interest liability adjustments.

8.7.7 Adjustments to the Amount of Federal Funds Requested. To calculate interest liability, the State will track the cash flows of Federal fund requests and refunds for the applicable Federal assistance programs specified in Section 6.3.

The State will not calculate an interest liability on adjustments made to the amount of Federal funds requested, such as changes to Federal-State funding ratios, reconciliation for underdraws or overdraws, and the like.

8.7.8 Capitalization Grants for Federal Family Education Loans (CFDA 84.032). This program is subject to a limited interest exemption pursuant to 31 CFR 205.25(f). The timing of the drawdown of Federal funds for deposit to the revolving funds are subject to the interest provisions of 31 CFR 205; however, there is an interest exemption for the interest the State earns on the associated revolving fund loans. The State will not incur any interest liability for interest earned on revolving fund loans.

8.7.9 Materiality Exemption. The cash flow for the Federal funds requested by the State departments that receive less than 5% of the total program funding will not be tracked due to the materiality exemption. The funding is for State administrative costs (payroll and operating expenses) and is requested after cost allocation.

8.7.10 Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959)—Funding to the Department of Health Services (DHS) for Chapter 1009, Statutes of 1994. The State will incur an interest liability from the deposit date in the Federal Trust Fund to the transfer date to DHS Sale of Tobacco to Minors Control (STMC) Account. The funds are paid out for program purposes when transferred to the STMC account. The State interest liability will be calculated on the total funds transferred each fiscal year for Chapter 1009, Statutes of 1994, as amended by Chapter 648, Statutes of 1998.

8.7.11 Disbursements Without Warrants. For payments made with journal entries (without warrants) between State departments, the State will incur an interest liability between the time Federal funds are deposited in the State account and the journal entry date. The Federal government will incur an interest liability between the journal entry date and the deposit of federal funds. The funds are paid out for program purposes when transferred to the other State department's account. In this case, one State department is acting as a vendor for another State department. There is no redemption period for these payments because the journal entries between the State departments occur simultaneously.

8.7.12 Calculation of Interest on Administrative Expenses. The State will calculate both State and Federal interest liabilities on all administrative costs, including payroll expenses and State operating expenses. The State will incur an interest liability for Federal funds that are drawn in advance of any administrative cost expenditure being made. The Federal government will incur an interest liability for State funds that are paid out in advance of Federal funds being received. These two calculations will be incorporated into the total interest liability information contained in the Annual Report.

9.0 Reverse Flow Programs

9.1 The Federal government makes payments on behalf of the State for the Supplemental Security Income (SSI) program.

9.2 Definitions

State Supplementary Payment (SSP): Monthly payment made by the State to the Social Security Administration (SSA), as a voluntary supplement to monthly SSI payments made by the SSA to the State's SSI beneficiaries.

SSI/SSP: The monthly SSI payment made by the SSA to beneficiaries, which combines both Federal SSI program funds and SSP funds.

SSI/SSP Transfer Date: The dollar-weighted average day of clearance of the regularly issued monthly SSI/SSP checks issued by the SSA, adjusted to reflect three payment variations.

Due Date: The day on which States are required to deposit funds to the SSA.

Deposit Date: The day on which State funds are deposited to the SSA.

9.3 Funding Technique

The State and the Federal government will apply the following funding technique to the SSI program:

Component: State Supplementary Payment

Technique: SSI Funding Technique

Description: In accordance with Public Law 106-170, the State shall deposit funds to the SSA no later than the business day preceding the date on which the SSA Commissioner pays monthly benefits, or with respect to monthly benefits paid for the month that is the last month of the State's fiscal year, the fifth business day following such date.

9.4 Clearance Pattern

The SSI/SSP Transfer Date is determined by adjusting the dollar weighted average day of clearance for regularly issued monthly SSI/SSP checks, as determined by the Federal Reserve Bank's Survey of Float on US Government Checks, with the three payment variations below, to reflect the proportion of SSI/SSP payments made to beneficiaries as follows:

By check on days later in a month: To calculate this adjustment, SSA will determine the nationwide percentage of total SSI/SSP payments made to beneficiaries by check on days later in a month, using full data from the most recent Federal fiscal year. The average day of clearance for regularly issued monthly SSI/SSP checks shall be dollar-weighted for SSI/SSP payments made to beneficiaries by check on days later in the month, which are assumed to be issued on the 11th business day of the month.

By direct deposit on the regularly designated day of the month for delivery of SSI/SSP payments: To calculate this adjustment, SSA will determine the nationwide percentage of total SSI/SSP payments made to beneficiaries by direct deposit on the regularly designated day of the month for delivery of SSI/SSP payments, using full data from the most recent Federal fiscal year. The average day of clearance for regularly issued monthly SSI/SSP checks shall be dollar-weighted with the average day of clearance for SSI/SSP payments made to beneficiaries by direct deposit on the regularly designated day of the month for delivery of SSI/SSP payments to beneficiaries.

By direct deposit on days later in a month: To calculate this adjustment, SSA will determine the nationwide percentage of total SSI/SSP payments made to beneficiaries by direct deposit on days later in a month, using full data from the most recent Federal fiscal year. The average day of clearance for regularly issued monthly SSI/SSP checks shall be dollar-weighted with the average day of clearance for SSI/SSP payments made to beneficiaries by direct deposit on days later in a month, which are assumed to be issued on the 11th business day of the month.

9.5 Interest Calculations

The Federal Government shall use the following methods to calculate and document Federal and State interest liabilities for SSI.

To calculate the interest liability, SSA shall record the Deposit Date of each monthly SSP payment and compare it to the SSI/SSP Transfer Date for each month. The liability for interest will be based on the following:

Payments received before the Due Date: The interest liability provisions of the CMIA do not apply to payments paid by a State before the Due Date, pursuant to Public Law 106-170. All payments received prior to the Due Date will be deemed as received on the Due Date, for the purposes of calculating interest.

Payments received on the Due Date: A Federal interest liability should be computed from (1) the Due Date to (2) the day SSA pays out the State funds for program purposes (SSI/SSP Transfer Date).

Payments received after the Due Date but on or before the SSI/SSP Transfer Date: Interest liability provisions of the CMIA do not apply.

Payments received after the SSI/SSP Transfer Date: A State interest liability will accrue from (1) the SSI/SSP Transfer Date until (2) the day State funds are credited to the SSA.

SSA shall calculate Federal and State interest liabilities on the variance between (1) the amount of the monthly State payment, which is an estimate, and (2) the actual monthly outlays for program purposes made by the SSA on behalf of the State. The monthly State payment includes the cumulative balance brought forward from the previous month. For each month of the State's fiscal year, SSA will compare the amount of the State payment to the amount of the actual outlays made on behalf of the State. To the extent the State payment (including the estimated cumulative balance) is greater than actual outlays, a Federal interest liability will accrue. To the extent the State payment (including estimated cumulative balance) is less than actual outlays, a State interest liability will be calculated. In either case, the interest liability will be calculated based on the difference in whole days from (1) the day the monthly State payment was deposited to a Federal account to (2) the day a subsequent monthly State payment is deposited to a Federal account.

Any overpayment that results in a cumulative balance does not constitute an early deposit as defined in Public Law 106-170, Section 410, Schedule for SSI Supplementation Agreements.

9.6 Refunds

Pursuant to 31 CFR 205.25 (c)(3), the State or the Federal government will not incur interest liabilities on refunds under the Supplemental Security Income Program as States are credited with the refunds in advance, before SSA collects the funds.

9.7 Interest Report

In order for the State to meet the December 31 CMIA Annual Report deadline, the Federal agency for the reverse flow program shall mail or send by facsimile the interest report to Finance, Fiscal Systems and Consulting Unit, on or before November 1 each year, or as soon as practical thereafter but preferably no later than November 15.

10.0 INTEREST CALCULATION COSTS

10.1 As set forth in 31 CFR 205.27, interest calculation costs are defined as those costs necessary for the actual calculation of interest, including the cost of developing and maintaining clearance patterns in support of the interest calculations. Interest calculation costs do not include expenses for normal disbursing services, such as processing of checks or maintaining records for accounting and reconciliation of cash balances, or expenses for upgrading or modernizing accounting systems. Interest calculation costs in excess of \$50,000 in any year are not eligible for reimbursement, unless the State provides justification with the annual report.

10.2 The State expects to incur the following types of interest calculation costs:

As a result of CMIA regulations, interest calculation costs will include those costs incurred by the Department of Finance that are related to the calculation of interest, including the cost of developing and maintaining clearance patterns in support of interest calculations.

10.3 The State shall submit all claims for reimbursement of interest calculation costs with its Annual Report in accordance with 31 CFR 205.

11.0 NON-COMPLIANCE

11.1 The provisions of 31 CFR Part 205.29 and 31 CFR Part 205.30 shall apply in cases of non-compliance with the terms of this Agreement.

11.2 The Agreement will be the primary document for audits in accordance with Chapter 75 of Title 31, United States Code, "Requirements for Single Audits." The Agreement documents specific processes agreed to by both parties. These agreed upon processes reflect the unique operations of the State.

12.0 AUTHORIZED SIGNATURES

Stephen W. Kessler
Chief Deputy Director
Department of Finance
State of California

Signature:  Date Signed: 6-29-05

Date Submitted 6/28/2005

Gary E. Grippo
Assistant Commissioner
Federal Finance
Financial Management Service
U.S. Department of the Treasury

Signature:  Date Signed: 7/5/05

**Exhibit I - Funds Request and Receipt Times Schedule
The State of California**

Federal Agency	Payment Type	Request Cut-Off Time	Receipt Window
Agriculture-FS	ACH	3:00 pm, EST	Next Day
Agriculture-FNS	ACH	11:59 pm, EST	Next Day
	Fedwire	5:45 pm, EST	Same Day
Commerce-NOAA	ACH	2:00 pm, EST	Next Day
Education	ACH	3:00 pm, EST	Next Day
	Fedwire	2:00 pm, EST	Same Day
Energy	ACH	4:00 pm, EST	Next Day
	Fedwire	3:00 pm, EST	Same Day
EPA	ACH	2:00 pm, EST	Two Days
	Fedwire	2:00 pm, EST	Same Day
HHS	ACH	6:30 pm, EST	Next Day
	Fedwire	3:00 pm, EST	Same Day
HUD	ACH	6:00 pm, EST	Two Days
	Fedwire	3:00 pm, EST	Same Day
Interior-FWS	ACH	6:30 pm, EST	Next Day
Interior-OSM	ACH	3:00 pm, EST	Next Day
	Fedwire	1:00 pm, EST	Same Day
Justice	ACH	2:00 pm, EST	Two Days
	Fedwire	2:00 pm, EST	Two Days
Labor-UTF	ACH/Fedwire	3:00 pm, EST	Next Day/Same Day
Labor-Non-UTF	ACH	3:00 pm, EST	Next Day
National Science Foundation (NSF)	ACH	8:00 pm, EST	Next Day
	Fedwire	5:45 pm, EST	Same Day
Social Security Administration	ACH	11:59 pm, EST	Next Day
	Fedwire	5:45 pm, EST	Same Day
Transportation (FTA)	ACH	12:00 Noon, EST	Next Day
Transportation (FAA)	ACH	2:00 pm, EST	Next Day
Transportation (FHWA)	ACH/Fedwire	12:00 Noon, EST	Three Days/Same Day
Veterans Administration	ACH	12:00 Noon, EST	Three Days
Army National Guard	ACH	12:00 Noon, EST	15 Days
Air National Guard	ACH	12:00 Noon, EST	15 Days
Dept of Homeland Security, (ODP)	ACH/Fedwire	2:00 pm, EST/2:00 pm, EST	Two Days/Two Days
Dept of Homeland Security, (FEMA)	Fedwire	2:00 pm, EST	Same Day

Exhibit II - California

LIST OF STATE CLEARANCE TIMES
(Rounded Dollar-Weighted Average Day of Clearance)
Clearance Times Where the Timing of A Draw Down Is Based on A
Clearance Pattern

CFDA	Program Name	Recipient	%	Component	Technique	Rounded days
10.551	Food Stamps	Department of Social Services (5180)		Benefit Payments	Zero Balance Accounting	0 Days
10.553	School Breakfast Program	Department of Education (6100)		Payments to local agencies	Pre-Issuance	11 Days
10.555	National School Lunch Program for Children	Department of Education (6100)		Payments to local agencies	Pre-Issuance	12 Days
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Department of Health Services (4260)		Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Department of Health Services (4260)		Payments to local contractors	Pre-Issuance	8 Days
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Department of Health Services (4260)		Food voucher redemption	Modified Zero Balance Accounting	0 Days
10.558	Child and Adult Care Food Program	Department of Education (6100)		Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
10.558	Child and Adult Care Food Program	Department of Education (6100)		Payments to local agencies	Pre-Issuance	8 Days
10.561	State Administrative Matching Grants for Food Stamp Program	Department of Social Services (5180)		Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
10.561	State Administrative Matching Grants for Food Stamp Program	Department of Social Services (5180)		Payments to local agencies	Pre-Issuance	5 Days
17.225	Unemployment Insurance -- Federal Benefit Account and Administrative Costs	Employment Development Department (7100)		Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
17.225	Unemployment Insurance -- Federal Benefit	Employment Development		Benefit Payments	Modified Post-Issuance	N/A

	Account and Administrative Costs	Department (7100)			
17.225	Unemployment Insurance – State Benefit Account	Employment Development Department (7100)	Benefit Payments	Modified Post-Issuance	N/A
20.205	Highway Planning and Construction	Department of Transportation (2660)	Payments for revolving fund, miscellaneous direct payments, utilities, service center charges, accounts receivable/reimbursement adjustments, and other miscellaneous adjustments.	Reimbursement—Department of Transportation	N/A
20.205	Highway Planning and Construction	Department of Transportation (2660)	Payments for construction contracts (includes subvention reimbursements)	Pre-Issuance	N/A
20.205	Highway Planning and Construction	Department of Transportation (2660)	Payments for right-of-way	Modified Average Clearance	25 Days
20.205	Highway Planning and Construction	Department of Transportation (2660)	Payments for consultant contracts	Modified Average Clearance	18 Days
20.205	Highway Planning and Construction	Department of Transportation (2660)	Payments for subventions	Modified Average Clearance	16 Days
20.205	Highway Planning and Construction	Department of Transportation (2660)	Payments for labor	Monthly Draws	N/A
84.010	Title I Grants to Local Educational Agencies	Department of Education (6100)	Payroll/Operating expenses	Monthly Estimate/Monthly Draw—Administrative Costs	N/A
84.010	Title I Grants to Local Educational Agencies	Department of Education (6100)	Payments to local agencies	Pre-Issuance	7 Days
84.027	Special Education – Grants to States	Department of Education (6100)	Payroll/Operating expenses	Monthly Estimate/Monthly Draw—Administrative Costs	N/A
84.027	Special Education – Grants to States	Department of Education (6100)	Payments to local agencies	Pre-Issuance	6 Days
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Department of Rehabilitation (5160)	Payments to clients	Reimbursement	N/A
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Department of Rehabilitation (5160)	Payroll/Operating expenses	Monthly Estimate/Monthly Draw—Administrative Costs	N/A
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Department of Rehabilitation (5160)	Payments to vendors	Pre-Issuance	12 Days
84.367	Improving Teacher Quality State Grants	Department of Education (6100)	Payroll/Operating expenses	Monthly Estimate/Monthly Draw—Administrative Costs	N/A
	Improving		Payments to local educational		

84.367	Teacher Quality State Grants	Department of Education (6100)		agencies and various State departments	Pre-Issuance	7 Days
93.558	Temporary Assistance for Needy Families	Department of Social Services (5180)		Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
93.558	Temporary Assistance for Needy Families	Department of Social Services (5180)		Payments to local agencies	Pre-Issuance	0 Days
93.563	Child Support Enforcement	Department of Child Support Services (5175)		Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
93.563	Child Support Enforcement	Department of Child Support Services (5175)		Payments to local agencies	Pre-Issuance	6 Days
93.575	Child Care and Development Block Grant	Department of Education (6100)		Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
93.575	Child Care and Development Block Grant	Department of Education (6100)		Payments to child care providers	Monthly Estimate/Monthly Draw	N/A
93.575	Child Care and Development Block Grant	Department of Education (6100)		Payments to local education agencies and various State departments	Pre-Issuance	10 Days
93.596	Child Care Mandatory and Matching Funds for the Child Care and Development Fund	Department of Education (6100)		Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
93.596	Child Care Mandatory and Matching Funds for the Child Care and Development Fund	Department of Education (6100)		Payments to local education agencies and various State departments	Pre-Issuance	9 Days
93.596	Child Care Mandatory and Matching Funds for the Child Care and Development Fund	Department of Education (6100)		Payments to child care providers	Monthly Estimate/Monthly Draw	N/A
93.658	Foster Care -- Title IV-E	Department of Social Services (5180)		Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
93.658	Foster Care -- Title IV-E	Department of Social Services (5180)		Payments to local agencies	Pre-Issuance	4 Days
93.659	Adoption Assistance	Department of Social Services (5180)		Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
93.659	Adoption Assistance	Department of Social Services (5180)		Payments to local agencies	Pre-Issuance	5 Days
93.667	Social Services Block Grant	Department of Social Services (5180)		Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
93.667	Social Services Block Grant	Department of Social Services (5180)		Payments to service providers and to State and local agencies	Pre-Issuance	1 Day
93.767	State Children's Insurance Program	Managed Risk Medical Insurance Board (4280)	75	Payments to health insurance providers, enrollment contractor, and local agencies	Pre-Issuance	9 Days
93.767	State Children's Insurance Program	Department of Health Services (4260)		Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
93.767	State Children's Insurance	Department of Health Services (4260)	25	Payments to health care providers and to State and	Pre-Issuance	9 Days


	Program		local agencies		
93.767	State Children's Insurance Program	Managed Risk Medical Insurance Board (4280)	Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
93.778	Medical Assistance Program	Department of Health Services (4260)	Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
93.778	Medical Assistance Program	Department of Health Services (4260)	Payments to health care providers and local agencies	Pre-issuance	5 Days
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Department of Alcohol and Drug Programs (4200)	Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Department of Alcohol and Drug Programs (4200)	Payments to local agencies	Pre-issuance	7 Days
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Department of Alcohol and Drug Programs (4200)	Funding to the Department of Health Services (DHS) for Chapter 1009, Statutes of 1994 (Stop Tobacco Access to Kids Enforcement Act), as amended by Chapter 648, Statutes of 1998. (See Section 8.7.10)	Pre-issuance	0 Days
97.036	Public Assistance Grants	Office of Emergency Services (0690)	Payroll/Operating expenses	Monthly Estimate/Monthly Draw--Administrative Costs	N/A
97.036	Public Assistance Grants	Office of Emergency Services (0690)	Payments to State and local agencies	Pre-issuance	14 Days

I hereby certify that an authorized State official has certified at least every five years that the "Rounded Days of Clearance" listed in Exhibit 2 of this Treasury-State Agreement:

1. Have been prepared in accordance with the standards provided in 31 CFR 205.20;
2. Accurately represent the flow of Federal funds under the Federal assistance programs to which they apply;
3. Reflect seasonal or other periodic variations in the clearance activities; and,
4. Are auditable.

Date: 6/28/05

Printed Name: Freda Luan-Dun

Certifying Signature: 

Title: Chief, Fiscal Systems and Consulting Unit